



March 8, 2010

Dear Kitchen Cabinet members,

The Senate worked through the weekend and used that time to pass a billion dollars a year in new taxes over the next three years. I'm very disappointed with the majority party's avoidance of any kind of real government reform. Also, the constitutional amendment restricting bail passed the House and will now go to a vote of the people. And my bill preventing sex offenders at the Special Commitment Center from using computers also passed the House at the 11th hour and will come back to the Senate for concurrence. I'll go into more detail about these issues later in this update.

Largest tax increase in state history

With just five days left in the 2010 legislative session, the Washington State Senate passed [Senate Bill 6143](#), which would create or raise 21 separate taxes, by a vote of 25-23. I find it astonishing how arrogant the majority party in Olympia has become. This is a clear indication that its first thought when facing a budget crisis is to raise taxes, and not to reform the way government operates.

The state got into this mess mostly by growing state spending 33 percent during the governor's first four years in office. **The Legislature and the governor continue to spend tax dollars unabated, and now are fueled by the promise of more money to spend from the federal government.**

In the Senate Ways and Means committee last week, \$75 million in pork projects were added to the Senate budget to get a majority of members to vote for it, and we haven't even gone after the surplus funds that various state agencies and organizations have lying around. The Washington Education Association, for example, has over 100 million dollars in state tax money in a slush account

which wasn't needed for health care costs. **Yet the Legislature feels it necessary to raise taxes on our citizens to make up a budget deficit that it created?**

We also have a number of large construction projects around the state, which is good for the economy, but .5% of the total cost of each project has to be spent on art. And because of actions taken this session, those artists don't even have to be based in Washington. The state is spending millions of dollars on these art projects, and now that money may not even stay in our economy.

Despite passing this tax bill, we will have deficits as far into the future as the eye can see. There have been no systemic reforms to our budgeting process. In fact, the Senate has even fled from the so-called ideals which were supposedly held dearly. This package of taxes increases taxes on green energy projects like wind and solar power. **When push comes to shove, it's apparent that the Legislature doesn't really care about those projects as much as it does the money.**

If the Legislature continues to do business as usual, the only answer the majority party seems to offer up is more taxes. The tax increases passed Sunday, which comprise the single largest operating-budget tax increase in state history, are a perfect example of where the values of the majority party truly lie.

21 new ways to crawl into your pocket

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Summary of PSSB 6143

As of March 5, 2010

Part Description	Explanation	2009-11 Revenue
Part 1. Minimum nexus standards	B&O tax applies to nonresident firms with substantial nexus within WA: (1) \$50K of property, (2) \$50K of payroll, or (3) \$250K of receipts. Gross receipts single factor apportionment for allocating service and royalty income to WA	\$73.1 million
Part 2. Abusive tax transactions	Allows the Department of Revenue (DOR) to disregard transactions that lack economic substance beyond the tax benefits. Does not affect transactions initiated before July 1, 2010 that are based on a determination or other documents from DOR or to completed field audits for period before July 1, 2010. Closes methods used to avoid use tax and real estate excise tax.	\$13.6 million
Part 3. Direct seller B&O exemption	Eliminates the B&O exemption for firms that sell into Washington using direct seller's representatives. For periods prior to April 1, 2010 limits the exemption to consumer products. This is also known as the DOT Foods issue.	\$154.7 million
Part 4. B&O tax on manufacturing of certain agricultural products	Limits the B&O preferential tax rate (0.138%) for meat processing to the manufacturing of perishable meat products, dehydrated, cured, or smoked meat products, and hides, tallow, and other meat by-products. Requires the final product using the special B&O tax treatment for fruit and vegetable processing to be at least 50% fruit and vegetables.	\$4.8 million
Part 5. B&O tax on corporate directors	Disallows the employee exemption from B&O tax for corporate directors. Applies B&O tax at 1.5%. Provides forgiveness of tax for periods before July 1, 2010.	\$2.1 million
Part 6. Foreclosure exemption from REET	Limits the real estate excise tax exemption for transfers made pursuant to foreclosure. Sales of the property to a third party would be subject to tax. When a transfer or conveyance pursuant to a judicial or nonjudicial foreclosure or enforcement of a judgment is a sale the tax levied under this chapter is the obligation of the buyer.	\$6.6 million
Part 7. Tax Debts - Corporate Officer Liability	Allows the Department of Revenue to pursue uncollected taxes of a terminated or insolvent limited liability business from the chief executive or chief financial officer, or other persons responsible for paying the taxes.	\$4.5 million

Part 8. Repealing the B&O Tax Job Credit for International Service Activities	Repeals an underutilized B&O tax credit for international service activities. Repeals the B&O job creation tax credit for job creation in international services activities (legal, accounting, tax, engineering, architectural, consulting ...) provided to persons domiciled outside the US or for use outside the US. Currently available only in CEZ and international services districts.	\$0
Part 9. Eligibility for the Rural County Programs	Clarifies that a business claiming the sales and use tax deferral under ch. 82.60 RCW and B&O credits under ch. 82.62 RCW are allowed to claim the incentives for computer programming, but only when it is used to create a new item for sale.	\$0
Part 10. Limiting the B&O Deduction for Dues and Fees	Current law provides a business and occupation (B&O) tax deduction for dues and initiation fees; this would only allow the deduction for certain nonprofit organizations. They include those under 501(c)(3), (c)(4), (c)(5), (c)(6), (c)(8), (c)(10), or (c)(19).	\$1 million
Part 11. Limited the Bad Debt Deduction	In 1994, the Washington State Supreme Court interpreted the B&O deduction for bad debts to include bad debts assigned to a person purchasing an installment sales contract. This Part would expressly limit the deduction to the seller.	\$1.5 million
Part 12. Brokered Natural Gas	The brokered natural gas use tax is imposed at the location where the gas is burned by the taxpayer or stored in a facility of the taxpayer for later consumption. This change does not affect the state, but will increase revenues to local governments imposing the tax.	\$0
Part 13. Limiting Community Solar Incentives	For community solar projects, the renewable cost recovery program is limited to those community solar projects generating no more than 75 kilowatts of electricity.	\$0
Part 14. Sales Tax Exemption for Livestock Nutrient Equipment and Facilities	Suspends the sales and use tax exemption for equipment and facilities used for handling livestock nutrients at dairies and livestock feeding operations for three years.	\$1.6 million
Part 15. PUD privilege tax clarification	Clarifies that "gross revenue" for purpose of the tax, applies to all charges for electricity including recurring charges as a condition of receiving the electricity.	\$1.2 million
Part 16. Repealing the sales tax exemption for coal	The sales and use tax exemption for coal used at a coal-fired thermal electric generation facility is repealed.	\$10 million

Part 17. Exemption for machinery used to create electricity from wind.	In order to qualify for the exemption for machinery and equipment used to create energy from wind, a producer must either be a local utility or someone contracting with a local utility for the sale of power.	\$7.8 million
Part 18. Repeal of B&O Exemption for Property Management Salaries	Repeals the B&O exemption for amounts received by a property management company from the owner of a property for gross wages and benefits paid to on-site personnel.	\$8.3 million
Part 19. Sales and Use tax on Bottled Water	Expressly imposes sales tax (and thereby use tax) on sales of bottled water. Provides a sales tax exemption for persons purchasing bottled water with a prescription	\$30.0 million
Part 20. Temporary B&O Tax Surcharge on Service Businesses and Increasing the Small Business Tax Credit	From July 1, 2010 through June 30, 2013, and additional tax rate of 0.25% is added to the B&O tax on service businesses currently taxed at the rate of 1.5%. For any businesses subject to the additional B&O tax, the maximum small biz tax credit is increased from \$35/mo to \$70/mo.	\$170.8 million
Part 21. Temporary 0.3% sales/use tax and Working Families Tax Credit	From June 1, 2010 until June 30, 2013, an additional sales and use tax of 0.3% is imposed. An amount of \$313,307,000 is appropriated to the Education Legacy Trust Account for: <ul style="list-style-type: none"> state's levy equalization program, all-day kindergarten, and the state need grant. The Working Families' Tax Exemption is amended. <ul style="list-style-type: none"> For remittances made in 2011 (for taxes paid in 2010), the exemption is the greater of \$25 or a 5 percent of the EITC granted, prorated for the seven calendar months of 2010 in which the additional tax is imposed. For remittances made in 2012, the exemption is the greater of \$25 or 5 percent of the EITC granted. For remittances made in 2013 and thereafter, the exemption is the greater of \$50 or 10 percent of the EITC granted. For remittances provided in the fiscal year 2015 and thereafter, DOR must limit its ongoing costs to administer the program to 5 percent of the total exemptions provided each year. 	\$313.3 million

I ran amendments to do away with three of these tax increases – parts 13, 14 and 19. Part 13 limits the tax incentives for communities which generate solar power. Part 14 suspends sales and use tax exemption for handling livestock nutrients at dairies and livestock feeding operations. Part 19 implements a tax on bottle water.

Many of these tax exemptions were originally given to encourage the creation and use of green power. The majority party has for a long time tried to pass laws encouraging the use of renewable energy. **However when faced with a budget crisis, it's amazing how hypocritical some can be by voting to repeal tax exemptions intended to change the direction of our economy by encouraging wind and solar power.** In fact many of these green tax exemptions will have zero effect on the 2009-11 budget, yet the majority did away with them anyway!

Also, the Senate passed [SB 6874](#), which raises taxes on cigarettes by a dollar per pack. I've never been a smoker, but this bill is really just a piece of pro-smuggling legislation. Increasing the state tax to \$3.025 per pack will make ours the second highest in the nation. Idaho's is only 57-cents. This is really not about health care. **This is about how high can we push it and still get the money.** When the state received a landmark tobacco settlement several years ago, it was sold off for 27-cents on the dollar in order to balance a budget. This is just another gimmick.

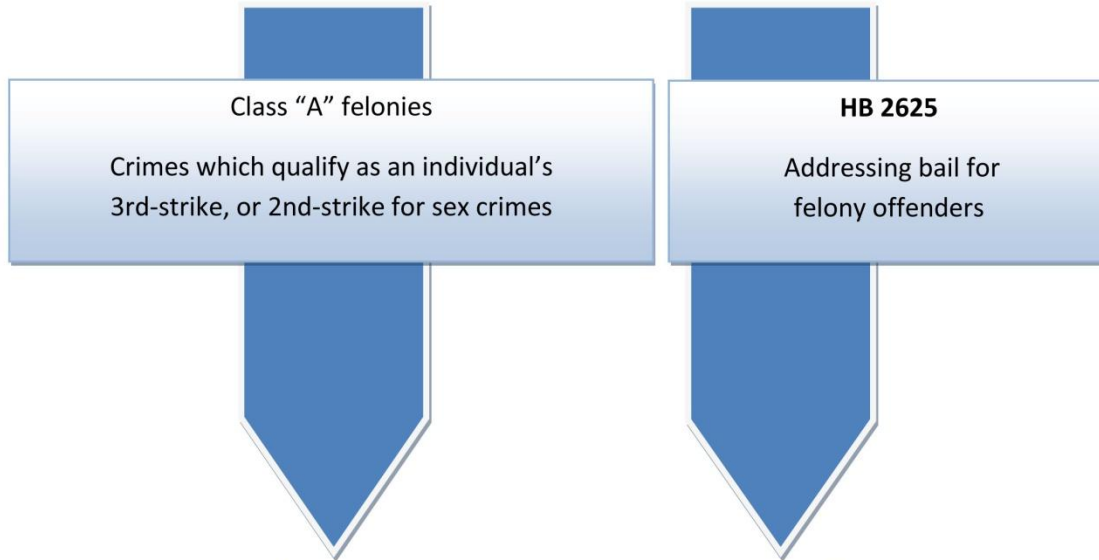
Again, there have been **no systemic government reforms** this session, the Legislature has fled from things previously held to be important to our future and the apparent hypocrisy tells me that the majority party is more concerned with talking the talk than they are walking the walk.

Senate changes to constitutional amendment agreed upon by House

Today, the House of Representatives agreed with the changes we made in the Senate to the constitutional amendment which allows judges to deny bail to someone who has committed a crime that could result in life in prison. It also stipulates that the Legislature will provide judges with a set of criteria with which to make a determination of the appropriateness of bail.

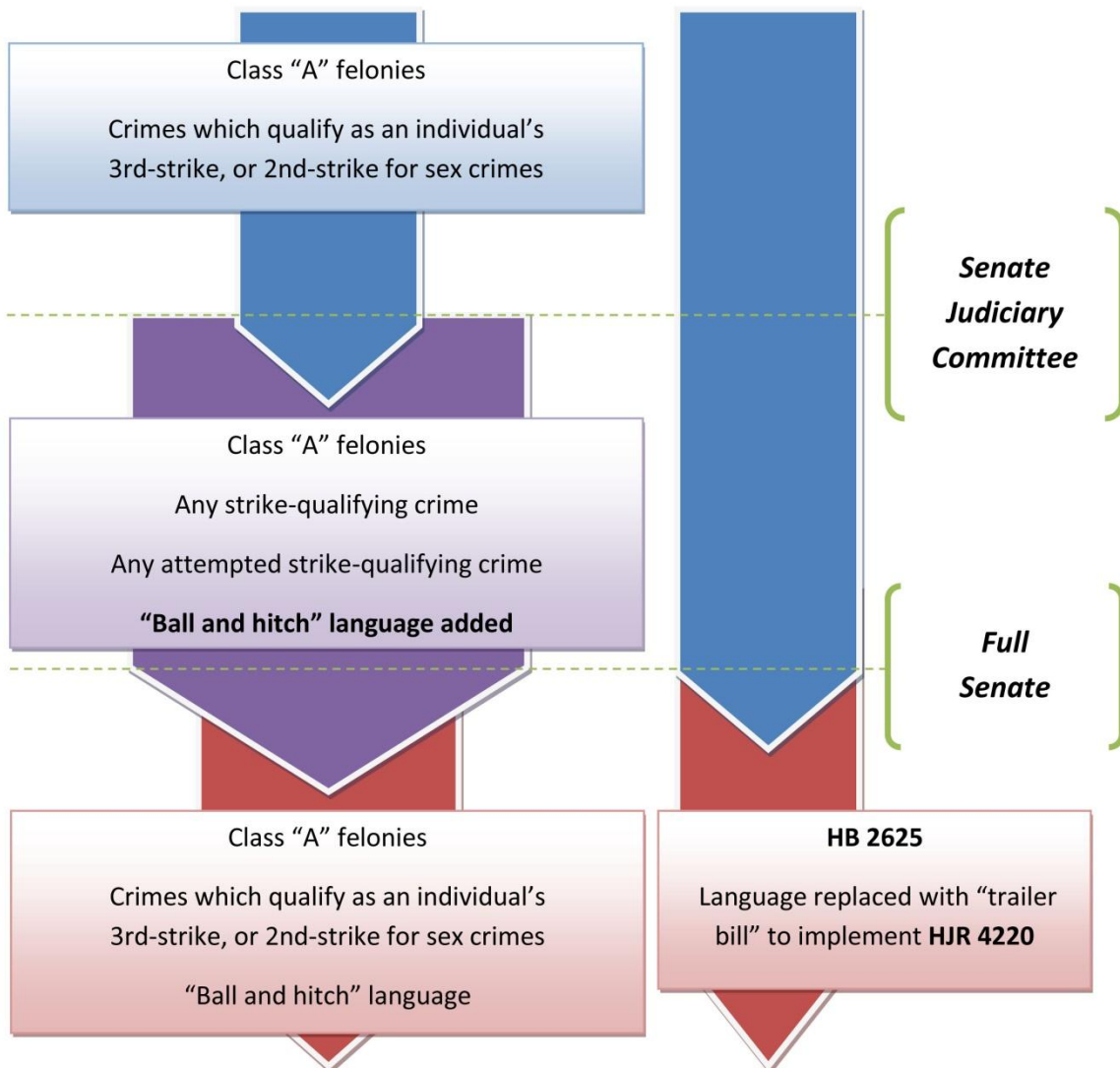
This measure has been a long time coming and I'm very pleased that it will now go to a vote of the people. Below is a chart which diagrams the route that this bill, along with the "trailer" bill, took. Keep in mind that the "ball and hitch" referenced below refers to my language in [HJR 4220](#) which gives the Legislature authority to determine the criteria judges use when determining bail. Some constitutional amendments require a "trailer" bill that enacts the language in the amendment. [HB 2625](#) became the "trailer" bill for this constitutional amendment, and is expected to be signed by the governor soon. The "ball and hitch," therefore, allows the "trailer" to be attached to the amendment.

HOUSE ACTION ON HJR 4220



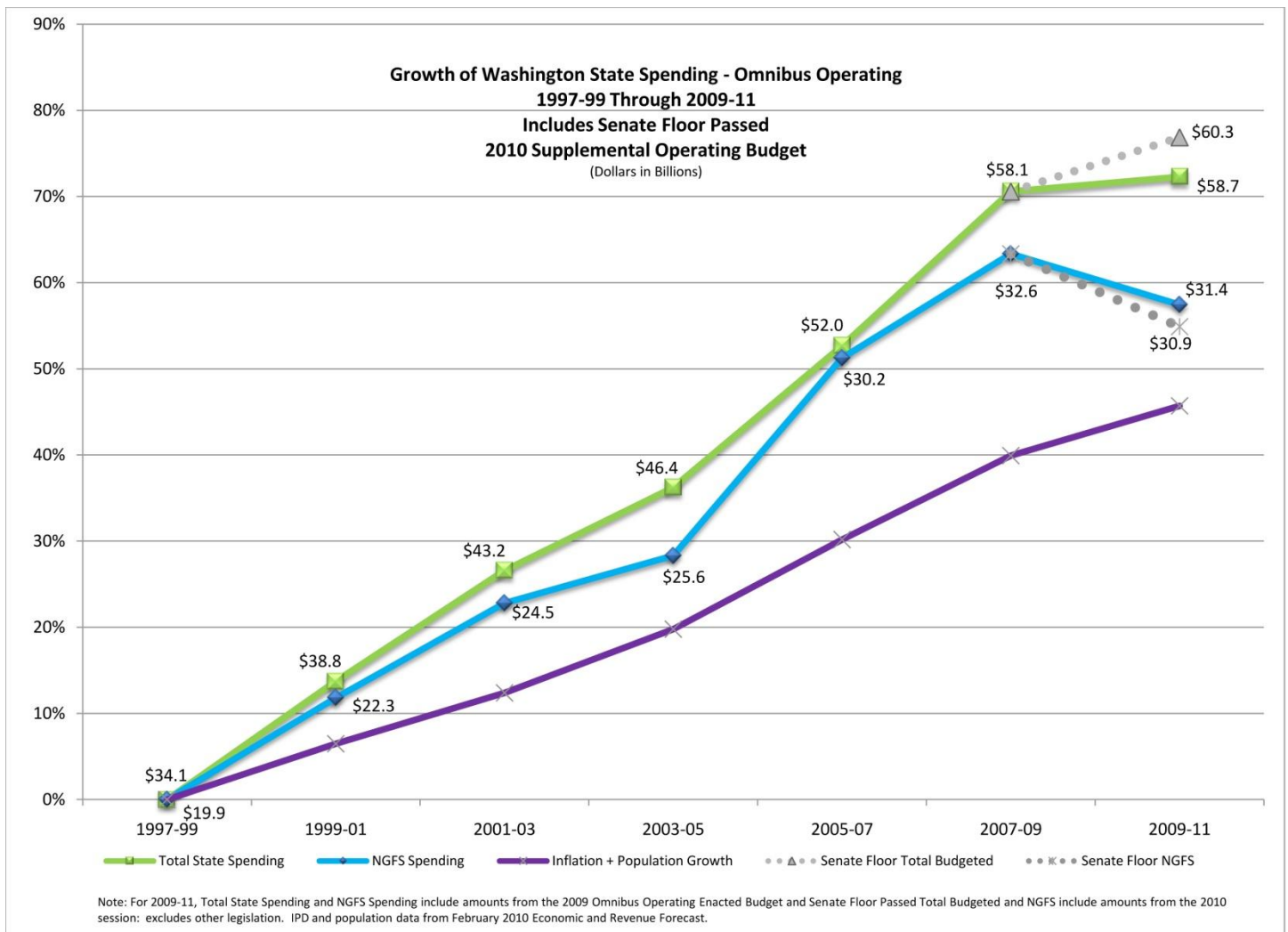
Passed the House – Sent to the Senate

SENATE ACTION ON HJR 4220



Unabated overspending

There has been a lot said about how government has reduced spending, but the chart below shows that the Senate budget – including federal money – has in fact increased every single year since the 1997-99 biennium. The purple line shows the level of spending based on inflation and population growth each biennium, which would have been in accordance with Initiative 601. You can see how the level of spending (the green line) steadily pulls away from it.



By the 2009-11 biennium, the state operating budget should have increased by about 45% from its 1997 level. **In fact, total state spending went up by 77%.** You can see from the blue line that without federal stimulus money to spend, it would have only increased by 57%, a difference of \$28.9 billion. In other words, the majority party is using these one-time monies to grow government programs which can't be sustained on state revenues alone.

Another important fact to remember is that it requires 27 private-sector jobs to support every one state job. Since February 2008, the private sector has lost 181,200 jobs, or a 7.5 percent reduction in its workforce. The construction industry in Washington alone has seen a reduction of up to 29 percent of its employees. Not including higher-education jobs, state government has seen a reduction of just seven-tenths of one percent. **That means that if government were to cut the same percentage of its workforce as the private sector has been forced to cut, more than 6,700 taxpayer-funded positions should have been eliminated. Instead, state government has trimmed just 500.**

New surcharges not at all related to document processing

In the Senate Ways and Means committee today, we heard testimony on [SB 6881](#), which would enact a new \$8 surcharge on certain recorded documents for the preservation of local archive documents and the Washington State Heritage Center. Current law requires a general recording fee of \$5 per document, **but local authorities are permitted to impose additional surcharges as they see fit.** For example, in addition to the \$5 recording fee, one might also have to pay a \$5 surcharge for historical preservation programs, \$10 to provide shelter and housing through a separate program, \$30 for local homeless assistance, and \$2 for the Washington State Heritage Center.

In fact, the chart below breaks down the current \$63 dollar recorded document fee. For example, if you wanted to have a county auditor record the deed to your house as required by law, you would pay:

Internal Account Code	Description of Fee	Amount
9167.3410.21	Document Recording Fee	5.00
9167.3410.21	Additional Documents	0.00
9011.3410.36	County Historical Preservation	1.00
82576.2370.1	State Preservation	2.00
1121.3410.36	County Preservation	2.00
82576.2370.2	State Archives	1.00
1932.3410.26	Affordable Housing - Commissioners	0.33
1131.3410.26	Affordable Housing - Local	5.70
82576.2370.3	Housing Affordability - State	3.80
82576.2370.5	Mortgage Lending Fraud Prosecution	0.95
1121.3410.27	Auditor Filing Fee	0.05
9167.3410.21	Emergency Non-standard doc	0.00
82576.2370.4	State Archives Digital	1.00
1121.3410.26	Affordable Housing	0.17
82576.2370.7	State Archives Bldg	2.00
1121.3410.27	Ending Homelessness - Auditor	0.60
82576.2370.6	Ending Homelessness - State	12.56
1131.3410.27	Ending Homelessness - County	23.35
1932.3410.27	Ending Homelessness - Commissioners	1.49
		<hr/> 63.00

The status of my bills

HJR 4220 - Constitutional amendment restricting bail

Though it is not my bill, it is my language contained within. It would amend the state Constitution so that individuals who meet certain conditions are not bailable.

- *PASSED THE HOUSE 80-17 ON FEB. 5*
- *AMENDED BY SENATE JUDICIARY TO CONTAIN MY LANGUAGE ON FEB. 26*
- *PASSED THE SENATE 48-0 ON MAR. 4*
- *HOUSE CONCURRED IN SENATE AMENDMENTS 92-4 ON MAR. 8*
- *CONSTITUTIONAL AMENDMENT WILL BE ON THE BALLOT IN NOVEMBER*

SB 6308 - Computer access at SCC

Prohibits any person committed or detained at the SCC from accessing a personal computer unless the resident's treatment plan states that such access is necessary.

- *HEARD IN HUMAN SERVICES AND CORRECTIONS JAN. 28*
- *APPROVED BY HUMAN SERVICES AND CORRECTIONS FEB. 2*
- *PASSED THE SENATE 47-0 FEB. 16*
- *APPROVED BY HOUSE PUBLIC SAFETY ON FEB. 23*
- *AMENDED BY THE HOUSE AND PASSED 97-1 ON MAR. 5*

In closing...

If you know someone in our district who might be interested in receiving these updates, please feel free to forward this e-mail to him or her. You can always find information online by visiting my website at www.SenateRepublicans.wa.gov/Carrell.



As always, if you'd like to contact me you can write, phone, e-mail, or stop by my Olympia office. I look forward to your comments and suggestions because they help me better represent you. My office phone number is (360) 786-7654, and my home phone number is (253) 581-2859. Or you can write me at **102 Irv Newhouse Building, P.O. Box 40428, Olympia, WA 98504-0428.**

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Sincerely,

Mike Carrell

28th District State Senator